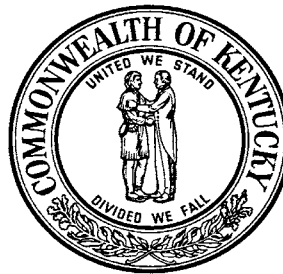


**REPORT OF THE AUDIT OF THE
HARDIN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 12, 2002



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Glen Dalton, Hardin County Judge/Executive
Honorable Martha Thomas, Hardin County Sheriff
Members of the Hardin County Fiscal Court

The enclosed report prepared by Stephens & Lawson, PSC, Certified Public Accountants, presents the Hardin County Sheriff's Settlement - 2001 Taxes.

We engaged Stephens & Lawson, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, PSC, evaluated the Hardin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
HARDIN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 12, 2002

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HARDIN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES

August 12, 2002

The Hardin County Sheriff's 2001 settlement audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

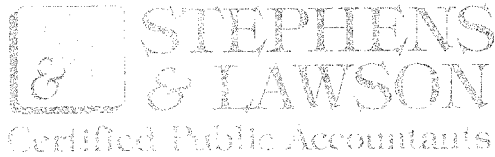
The Sheriff collected net taxes of \$24,985,236 for the districts for 2001 taxes. The Sheriff distributed taxes of \$24,973,987 to the districts for 2001 taxes. Taxes of \$18 are due to the districts from the Sheriff and refunds of \$1 are due to the Sheriff from the taxing districts.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky
Honorable Paul E. Patton, Governor
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Finance and Administration Cabinet
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Honorable Glen Dalton, Hardin County Judge/Executive
Honorable Martha L. Thomas, Hardin County Sheriff
Members of the Hardin County Fiscal Court

Independent Auditor's Report

We have audited the Hardin County Sheriff's Settlement - 2001 Taxes as of August 12, 2002. This tax settlement is the responsibility of the Hardin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hardin County Sheriff's taxes charged, credited, and paid as of August 12, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Glen Dalton, Hardin County Judge/Executive
Honorable Martha L. Thomas, Hardin County Sheriff
Members of the Hardin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 13, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
November 13, 2002

HARDIN COUNTY
MARTHA L. THOMAS, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 12, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 3,385,107	\$ 1,026,806	\$ 13,221,082	\$ 4,046,100
Tangible Personal Property	330,678	106,952	1,326,679	1,202,968
Intangible Personal Property				457,442
Fire Protection	1,609			
Taxes Increased Through Erroneous Assessments	3,288	1,262	13,027	4,791
Franchise Corporation	228,489	67,758	936,009	
County Road Taxes	27,069			
Undeveloped Oil/Gas Property Taxes	94	26	358	112
Limestone, Sand and Mineral Reserves	689	193	2,633	821
Bank Franchises	157,839			
Penalties & Interest	23,651	7,763	92,483	29,411
Adjusted to Sheriff's Receipt	(125)	12		(157)
Gross Chargeable to Sheriff	\$ 4,158,388	\$ 1,210,772	\$ 15,592,271	\$ 5,741,488
<u>Credits</u>				
Exonerations	\$ 33,175	\$ 10,060	\$ 128,679	\$ 41,467
Discounts	62,886	18,014	233,864	93,856
Delinquents:				
Real Estate	57,908	18,545	226,051	69,067
County Road Taxes	830			
Tangible Personal Property	5,133	1,544	20,577	13,030
Intangible Personal Property				1,813
Uncollected Franchise	335	99	1,427	
Total Credits	\$ 160,267	\$ 48,262	\$ 610,598	\$ 219,233
Net Tax Yield	\$ 3,998,121	\$ 1,162,510	\$ 14,981,673	\$ 5,522,255
Less: Commissions*	170,208	49,407	224,725	234,983
Net Taxes Due	\$ 3,827,913	\$ 1,113,103	\$ 14,756,948	\$ 5,287,272
Taxes Paid	3,826,170	1,112,578	14,750,160	5,285,079
Refunds (Current and Prior Year)	1,742	523	6,788	2,179
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	\$ 1	** 2	\$ 0	\$ 14

* and ** See Page 4

HARDIN COUNTY
MARTHA L. THOMAS, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
(Continued)

* Commissions:

10%	on	\$	10,000
4.25%	on	\$	10,672,886
1.50%	on	\$	14,981,673

** Special Taxing Districts:

Health	\$	(1)
Extension Service		2
City of Sonora		1
		<hr/>

Due Districts or (Refund Due Sheriff)	\$	<u>2</u>
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The accompanying notes are an integral part of the financial statement.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENT

August 12, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 12, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

HARDIN COUNTY
NOTES TO FINANCIAL STATEMENT
August 12, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 2001 through April 30, 2002.

Note 4. Interest Income

The Hardin County Sheriff earned \$23,422 as interest income on 2001 taxes. As of November 13, 2002, the Sheriff owes \$1,608 in interest to the school districts and is due a refund of \$1,608 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Hardin County Sheriff collected \$102,026 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Hardin County Sheriff collected \$13,086 of advertising costs and \$6,289 of fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising costs and fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments and Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed the funds should be submitted to the Kentucky State Treasurer. For the 2001 taxes, the Sheriff had \$3,490 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

Note 8. Bond Coverage

KRS 134.320 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is meant to cover all tax monies on hand in the Sheriff's office. The Sheriff's county revenue bond was \$1,500,000, which appears to be adequate to protect the county from potential loss.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Glen Dalton, Hardin County Judge/Executive
Honorable Martha L. Thomas, Hardin County Sheriff
Members of the Hardin County Fiscal Court

Report on Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Hardin County Sheriff's Settlement - 2001 Taxes as of August 12, 2002, and have issued our report thereon dated November 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hardin County Sheriff's Settlement - 2001 Taxes as of August 12, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hardin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
November 13, 2002

